
Fiscal Briefing

**Presentation to the
Senate Budget and Taxation Committee
and
House Committee on Appropriations**

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

July 15, 2003

General Fund Revenues through June below Estimate by \$75 Million

Fiscal 2003 General Fund Revenues (\$ in Millions)

<u>Source</u>	<i>Fiscal Year through June</i>				Over/Under
	<u>FY 2002</u>	<u>FY 2003</u>	<u>\$ Difference</u>	<u>% Difference</u>	<u>Estimate</u> ⁽¹⁾
Personal Income Tax	\$4,430.5	\$4,340.9	-\$89.5	-2.0%	-\$9.6 ⁽²⁾
Sales and Use Tax	2,391.1	2,434.8	43.6	1.8%	-18.6
State Lottery	416.3	422.5	6.2	1.5%	-9.5
Corporate Income Tax	273.2	288.3	15.0	5.5%	-26.4 ⁽²⁾
Business Franchise Taxes	145.2	140.4	-4.8	-3.3%	-14.5
Insurance Premiums Tax	203.6	234.7	31.1	15.3%	12.3
Estate & Inheritance Taxes	180.8	137.4	-43.4	-24.0%	7.4
Tobacco Tax ⁽³⁾	193.8	190.7	-3.1	-1.6%	-0.5
Alcohol Beverage Taxes	23.6	23.4	-0.2	-1.0%	-0.6
Motor Vehicle Fuel Tax ⁽⁴⁾	10.2	10.3	0.0	0.2%	-0.1
District Courts	72.6	71.7	-0.9	-1.2%	0.5
Clerks of the Court	42.6	49.9	7.3	17.1%	1.4
Hospital Patient Recoveries ⁽⁵⁾	10.1	9.9	-0.3	-2.5%	0.5
Interest on Investments	63.3	27.5	-35.8	-56.5%	-3.4
Miscellaneous	130.8	114.5	-16.3	-12.4%	-14.6
Total Current Revenues	\$8,587.8	\$8,496.8	-\$91.0	-1.1%	-\$75.7
Tax Amnesty	28.5	0.0	-28.5	n.a.	0.0
Grand Total	\$8,616.3	\$8,496.8	-\$119.5	-1.4%	-\$75.7

⁽¹⁾ Monthly estimates prepared by the Bureau of Revenue Estimates, Office of the Comptroller based on annual estimates from the Board of Revenue Estimates, March 2003.

⁽²⁾ The Board of Revenue Estimates estimated that the general fund in fiscal 2003 would lose \$51.6 million from the heritage structure rehabilitation tax credit but did not break that amount down by revenue source. Most of the impact will be in the personal income tax but some also in the corporate income tax and possibly the insurance premiums tax. For the purpose of this exercise, 75% of the estimated loss was put in the personal income tax and 25% in the corporate income tax.

⁽³⁾ In fiscal 2003, \$79.9 million of tobacco tax revenue will be put in a special fund to pay for local education aid. The monthly revenues in fiscal 2003 have been adjusted by deducting a pro-rated portion of that \$79.9 million.

⁽⁴⁾ Revenues for fiscal 2002 and 2003 are through May.

⁽⁵⁾ Includes revenues from Medicare, insurance, and sponsors only.

At the End of Session, the 2004 Budget Was Balanced, but a Substantial Shortfall Was Forecast for Future Years

**General Fund Status – Close of Session
Fiscal 2003 through 2008
(\$ in Millions)**

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005 Estimate</u>	<u>FY 2006 Estimate</u>	<u>FY 2007 Estimate</u>	<u>FY 2008 Estimate</u>
Revenues						
Ongoing Revenues	\$9,372	\$10,216	\$10,667	\$11,222	\$11,669	\$12,202
One-time Revenues	3	2				
Transfers/Fund Balance	1,059	330	109			
Total Revenues	\$10,435	\$10,548	\$10,776	\$11,222	\$11,669	\$12,202
Expenditures						
Operating Spending*	\$10,205	\$10,505	\$11,443	\$12,255	\$13,070	\$13,947
PAYGO Capital	48	9	51	88	87	86
Appropriation to Reserve Fund	181	0	5	11	7	9
Total Expenditures	\$10,434	\$10,514	\$11,499	\$12,354	\$13,164	\$14,042
Closing Balance	\$1	\$34	-\$723	-\$1,133	-\$1,495	-\$1,840
Ongoing Revenues vs. Expenditures**	-\$880	-\$298	-\$827	-\$1,122	-\$1,488	-\$1,831

* Adjusted for reversions.

** Excluding the appropriation to the reserve fund.

2005 Shortfall Caused by Medicaid, Thornton, and Only Moderate Revenue Growth

**Current Services Spending Requirements
Fiscal 2004 through 2005 General Funds
(\$ in Millions)**

	<u>FY 2004 Approp.</u>	<u>FY 2005 Estimate</u>	<u>Increase</u>	<u>Percent Increase</u>
Debt Service	\$0.0	\$19.8	\$19.8	
Local Aid				
Education (K-12)	3,319.1	3,706.8	387.7	11.7
Other	506.1	519.1	13.0	2.6
Entitlements				
Medicaid	1,704.0	1,895.1	191.1	11.2
Other	268.5	286.4	17.9	6.7
State Operations	4,742.0	5,040.0	298.0	6.3
Capital				
Economic Development	8.7	30.0	21.3	243.8
Housing/Other	0.7	21.1	20.4	3025.9
Reserve Fund	0.0	5.0	5.0	
Estimated Reversions	-35.0	-25.0	10.0	-28.6
Total Expenditures	\$10,514.1	\$11,498.3	\$984.2	9.4
Ongoing Revenues	\$10,216.4	\$10,667.0	\$450.6	4.4

Note: Based on February 2003 forecast by the Department of Legislative Services adjusted for 2003 session budget actions.

Agency Costs Led by Potential Personnel Expenses and Higher Education Estimates

Current Services Requirements Fiscal 2005 General Funds (\$ in Millions)

Personnel	
Increments	\$24
Retirement	3
Health Insurance	34
Deferred Compensation Match	9
2% COLA	<u>29</u>
Subtotal	99
Higher Education	
Public Colleges/Universities (4% Increase)	39
Baltimore City Community College	4
Private Higher Education – Fully Fund	15
Scholarships/Other	<u>7</u>
Subtotal	65
Hickey School – Juvenile Services	4
Department of Human Resources	25
Health Department	
Mental Health – Inflation	16
Developmentally Disabled – Wage Initiative	12
Fully Fund Mandated Substance Abuse Grants	<u>6</u>
Subtotal	34
Miscellaneous	
Information Technology Projects – per DBM Plan	23
Nonpersonnel Inflation – 1%	19
Operating Costs – New Facilities	12
Other	<u>17</u>
Subtotal	71
Total	\$298

Note: Based on February 2003 forecast by the Department of Legislative Services adjusted for 2003 session budget actions.

A Number of Things Have Changed since Session, but the Long-term Outlook Has Not

**Impact of Post Session Events on General Fund Balance
Fiscal 2003 through 2008
(\$ in Millions)**

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005 Estimate</u>	<u>FY 2006 Estimate</u>	<u>FY 2007 Estimate</u>	<u>FY 2008 Estimate</u>
DLS Forecast Balance – April	\$1	\$34	-\$723	-\$1,133	-\$1,495	-\$1,840
Known Adjustments						
HB 753 – Veto		-136	-158	-169	-133	-144
New Federal Funds	119	214				
<u>Probable Adjustments</u>						
Write-down Revenues*	-75	-75	-75	-75	-75	-75
Deficiencies		-50	-50	-50	-50	-50
Additional Fund Balance**		44	-3			
Revised Balance	\$45	\$31	-\$1,009	-\$1,427	-\$1,753	-\$2,109
<u>Potential Executive Action</u>						
Budget Cuts***		210	210	210	210	210
Additional Fund Balance			210			
Balance After Cuts	\$45	\$241	-\$589	-\$1,217	-\$1,543	-\$1,899

* Based on collections through June. It is likely revenues will close \$50 to \$100 million below estimate.

** Projected closing balance from prior year less balance forecast by the Department of Legislative Services in April.

*** Materials presented to the rating agencies represent that budgets would be reduced by \$135 million. Assumes anticipated revenue write-down of \$75 million is also offset by reductions.

Forecast Preserves Rainy Day Fund at 5%, but Funds Could Be Used

**Rainy Day Fund – Forecast
Fiscal 2004 through 2008
(\$ in Millions)**

	<u>FY 2004</u>	<u>FY 2005 Estimate</u>	<u>FY 2006 Estimate</u>	<u>FY 2007 Estimate</u>	<u>FY 2008 Estimate</u>
Appropriation to Fund	\$0.0	\$5.0	\$11.0	\$7.0	\$9.0
Ending Balance	\$505.2	\$525.7	\$552.9	\$576.9	\$603.6
As a Percent of General Fund Revenues	5.0%	5.0%	5.0%	5.0%	5.0%
5% of General Fund Revenues	\$504.0	\$525.5	\$552.6	\$576.8	\$602.9
Excess over 5% of General Fund Revenues	\$1.2	\$0.2	\$0.3	\$0.1	\$0.7

Long-term Spending Drivers Remain Education and Medicaid

Current Services Spending Requirements Fiscal 2004 through 2008 General Funds (\$ in Millions)

	<u>FY 2004 Approp.</u>	<u>FY 2008 Estimate</u>	<u>Increase</u>	<u>Avg. Annual Increase</u>
Debt Service	-	\$193.5	\$193.5	
Local Aid				
Education (K-12)	\$3,319.6	4,928.2	1,608.6	10.4%
Other	505.6	582.8	77.2	3.6%
Entitlements				
Medicaid	1,704.0	2,344.5	640.5	8.3%
Other	268.5	305.6	37.1	3.3%
State Operations	4,742.0	5,617.1	875.1	4.3%
Capital	9.4	86.2	76.8	74.0%
Reserve Fund	0.0	9.0	9.0	
Estimated Reversions	-35.0	-25.0	10.0	-8.1%
Total Expenditures	\$10,514.1	\$14,041.9	\$3,527.8	7.5%
Ongoing Revenues	\$10,080.8	\$12,058.4	\$1,977.6	4.6%

Education Forecast Driven by Full Thornton; Thornton Lite Would Lower Costs

State Education Aid Estimates

Fiscal 2004 through 2008

(\$ in Millions)

Program Category	<u>FY 2004</u>	<u>FY 2005 Estimate</u>	<u>FY 2006 Estimate</u>	<u>FY 2007 Estimate</u>	<u>FY 2008 Estimate</u>	<u>Increase</u>	Avg. Annual Increase
							<u>FY 04-08</u>
Thornton formulas ¹	\$2,739.1	\$3,092.2	\$3,423.4	\$3,775.5	\$4,196.6	\$1,457.5	11.3%
Teachers' retirement	383.6	405.7	423.3	451.9	479.7	96.1	5.7%
Nonpublic placements	104.0	114.4	125.8	138.4	152.2	48.3	10.0%
Other programs	93.0	94.8	93.6	97.7	99.9	6.9	1.8%
Total with Full Implementation	\$3,319.6	\$3,707.0	\$4,066.1	\$4,463.5	\$4,928.4	\$1,608.8	10.4%
\$ increase over prior year	\$206.0	\$387.4	\$359.0	\$397.5	\$464.8		
% increase over prior year	6.6%	11.7%	9.7%	9.8%	10.4%		
Total without 2004 Joint Resolution	\$3,319.6	\$3,490.9	\$3,662.5	\$3,845.6	\$4,035.8	\$716.1	5.0%
\$ increase over prior year	\$206.0	\$171.3	\$171.6	\$183.1	\$190.1		
% increase over prior year	6.6%	5.2%	4.9%	5.0%	4.9%		
Reduction without 2004 Joint Resolution	\$0.0	\$216.1	\$403.5	\$617.9	\$892.6		

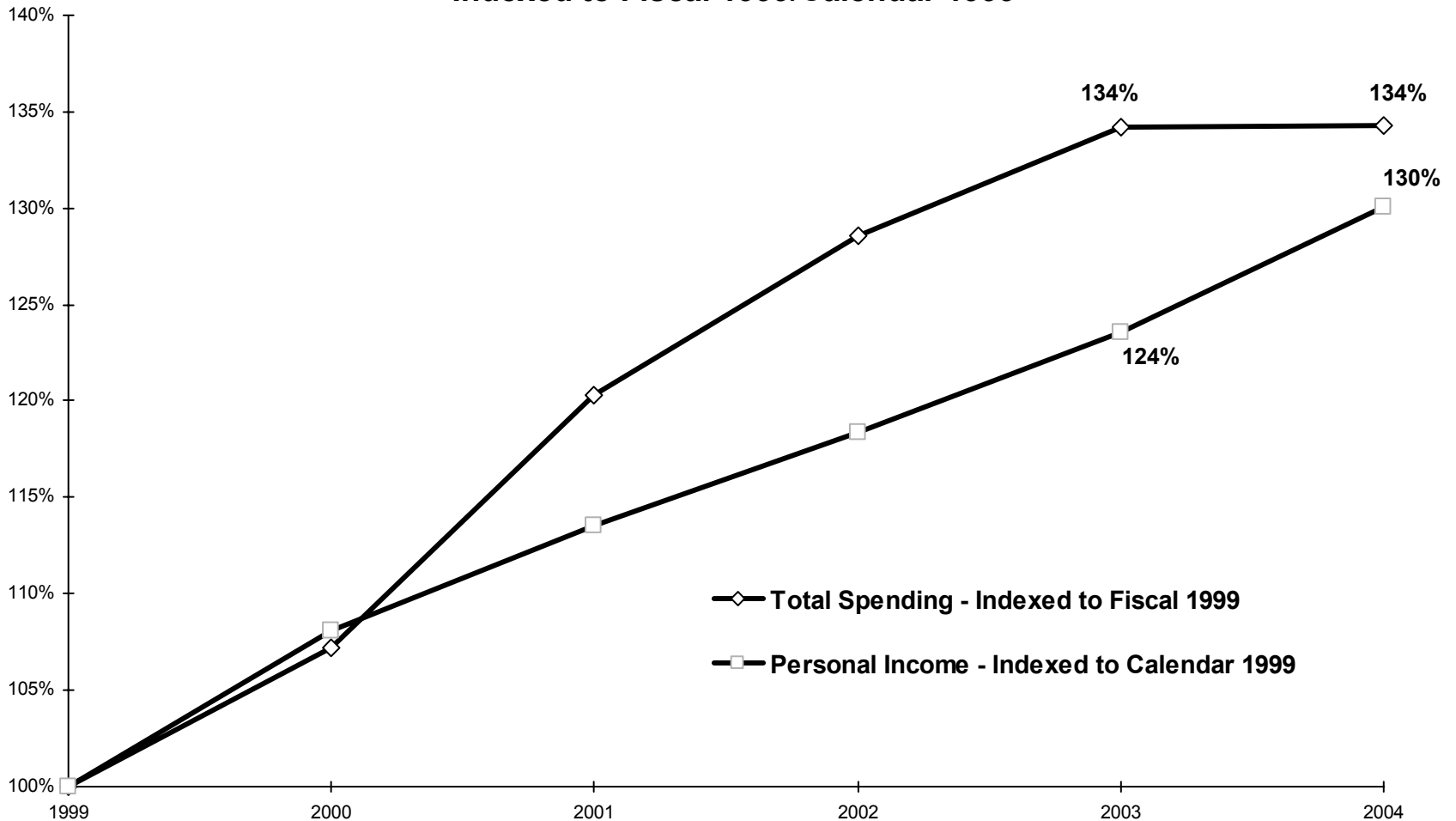
¹Includes student transportation.

How Did We Get into This Mess?

Prevailing Theories

Excessive Spending?

**Growth in the Total Budget vs. Personal Income
Indexed to Fiscal 1999/Calendar 1999**



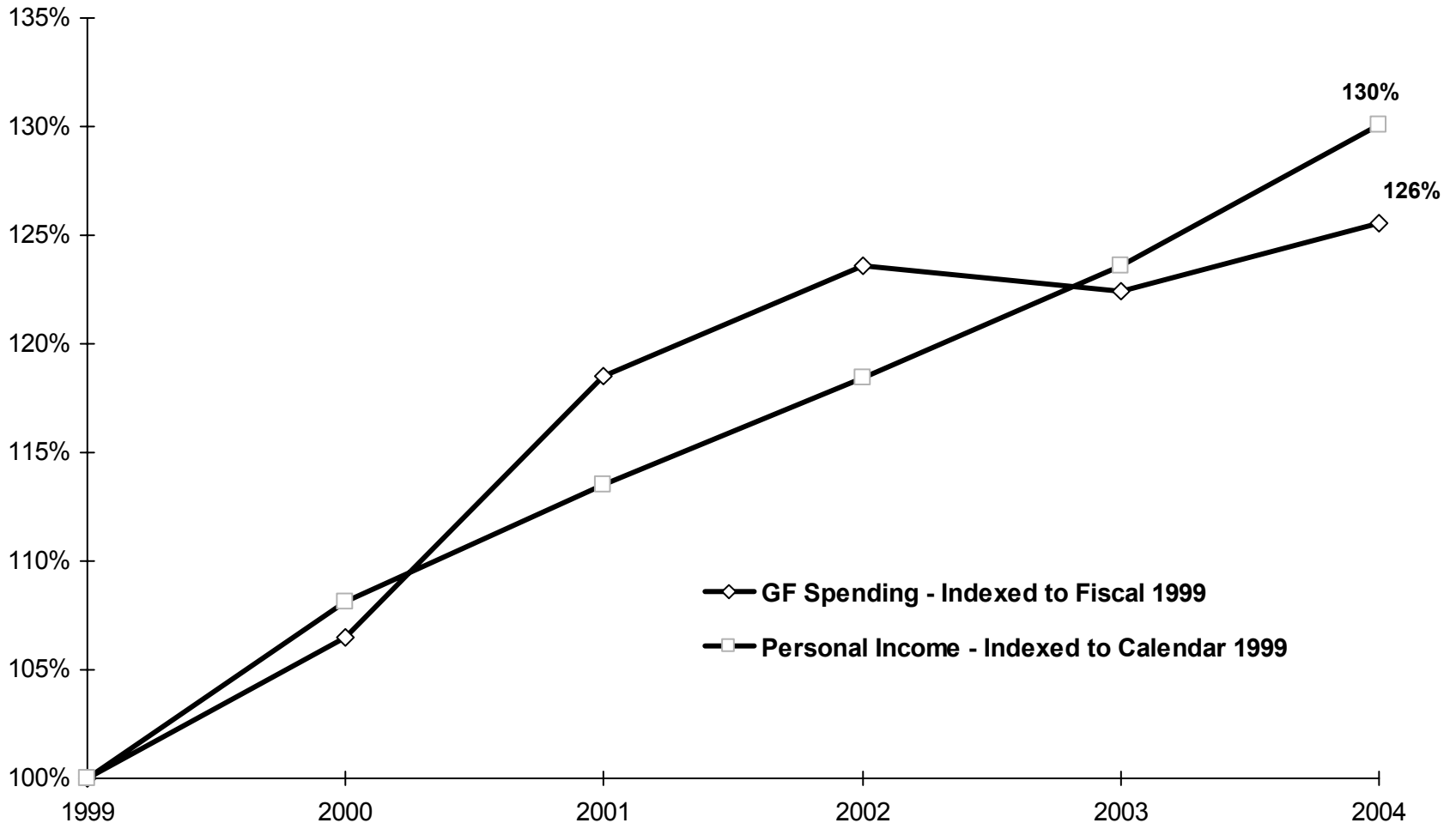
Note: Fiscal 2003 reflects cost containment and deficiencies. Fiscal 2004 is the legislative appropriation. Estimates of personal income growth in calendar 2003 and 2004 from the Board of Revenue Estimates, December 2002.

Are All Funds the Best Analytical Approach?

- Inclusion of federal funds doubles impact of Medicaid driving up spending.
- Includes federal transportation funding, which has increased \$336 million since fiscal 1999.
- Includes all sources of higher education funding. Nongeneral fund support for higher education increased \$748 million or 8% per year since fiscal 1999 and includes State/federal grants and contracts.
- Appropriations to Rainy Day Fund are included.
- Immediate problem is State general fund not all funds.

Excessive Spending?

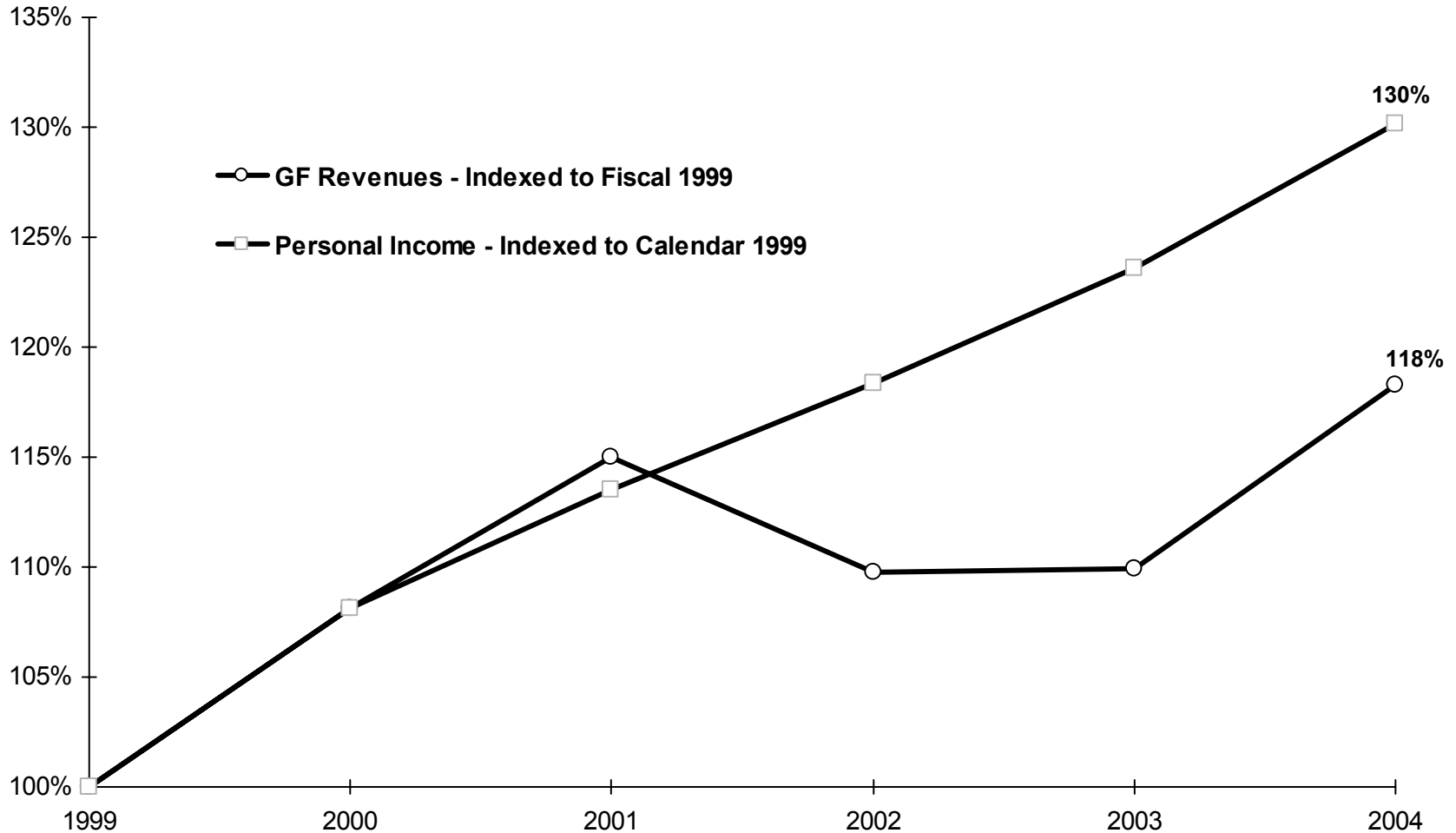
**Growth in the General Fund Budget vs. Personal Income
Indexed to Fiscal 1999/Calendar 1999**



Note: Spending excludes reserve fund appropriations. Fiscal 2003 reflects cost containment and deficiencies. Fiscal 2004 is the legislative appropriation. Estimates of personal income growth in calendar 2003 and 2004 from the Board of Revenue Estimates, December 2002.

Recession Leads Revenue Growth to Trail Personal Income

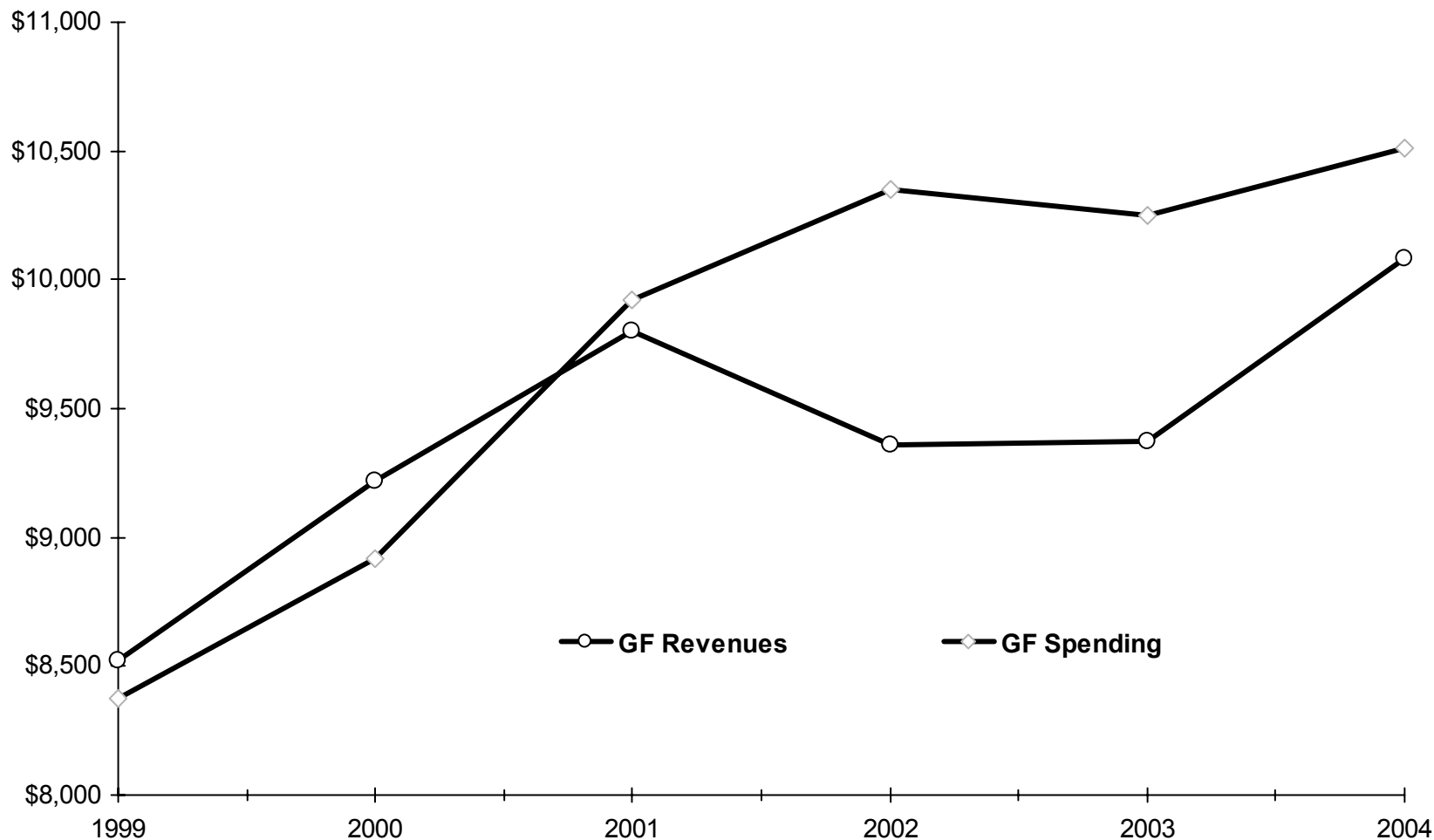
**Growth in General Fund Revenues vs. Personal Income
Indexed to Fiscal 1999/Calendar 1999**



Note: Revenue estimates for fiscal 2003 and 2004 are from the Board of Revenue Estimates, March 2003 with adjustments for legislative action at the 2003 session. Fiscal 2002 excludes one-time items. Estimates of personal income growth in calendar 2003 and 2004 are from the Board of Revenue Estimates, December 2002.

Spending Grew When Revenues Didn't

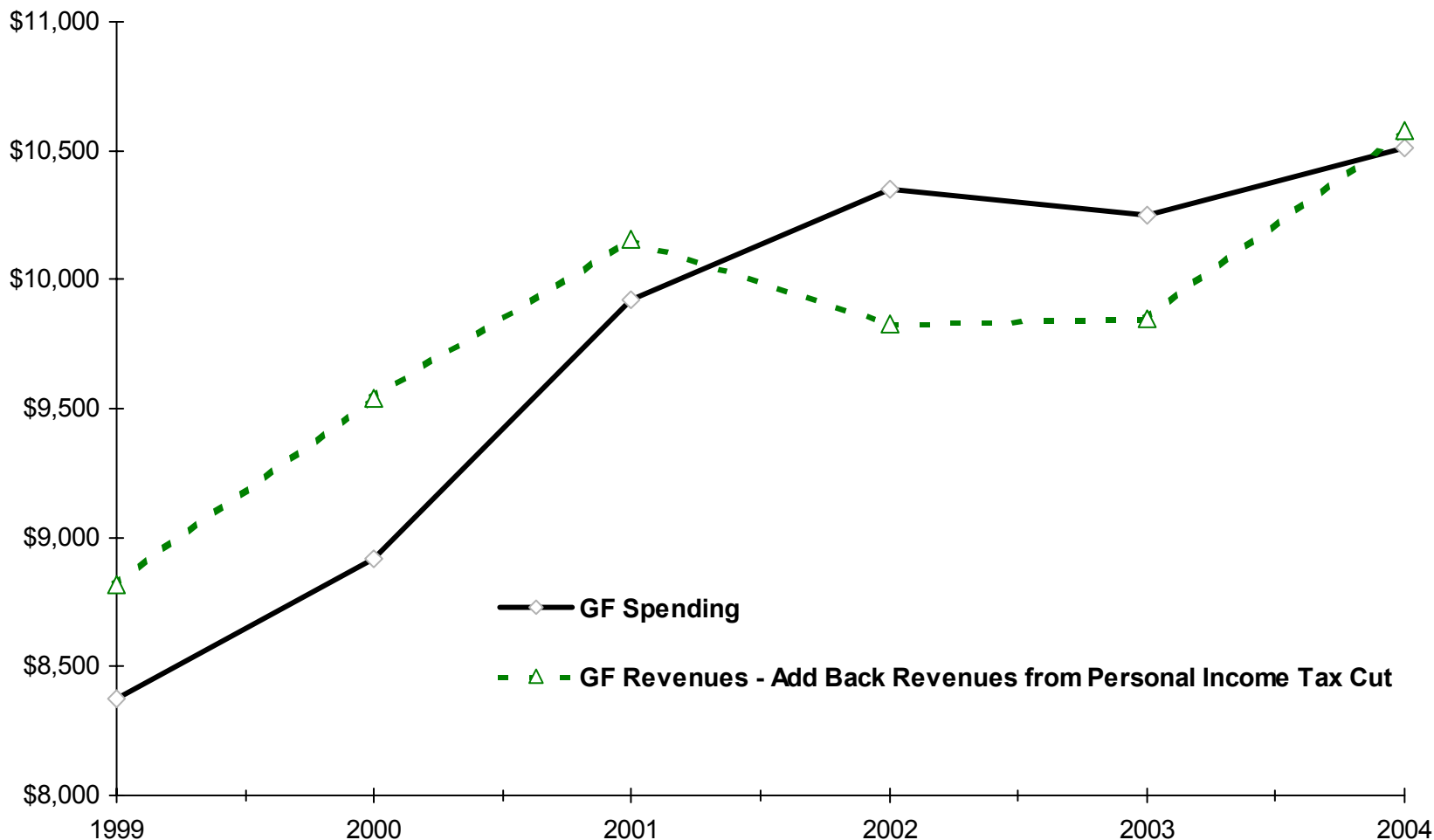
General Fund Revenues vs. General Fund Spending
(\$ in Millions)



Note: Revenue estimates for fiscal 2003 and 2004 are from the Board of Revenue Estimates, March 2003 with adjustments for legislative action at the 2003 session. Fiscal 2002 excludes one-time items. Spending excludes reserve fund appropriations. Fiscal 2003 reflects cost containment and deficiencies. Fiscal 2004 is the legislative appropriation.

Even without the Tax Cut, Recession Would Have Hurt

Adjusted General Fund Revenues vs. General Fund Spending (\$ in Millions)



Note: Revenue estimates for fiscal 2003 and 2004 are from the Board of Revenue Estimates, March 2003 with adjustments for legislative action at the 2003 session. Fiscal 2002 excludes one-time items. Spending excludes reserve fund appropriations. Fiscal 2003 reflects cost containment and deficiencies. Fiscal 2004 is the legislative appropriation.

General Fund Spending Has Been Constrained – State Agency Spending for 2004 Is \$675 Million Lower Than Forecast Before the 2001 Session

Fiscal 2004 General Fund Forecasts
(\$ in Millions)

	<u>Nov-00</u>	FY 2004 Approp. Less CY 01-02 <u>Legislation</u>	<u>Difference</u>	<u>% Change</u>	<u>Legislation CY 01-02</u>	Total FY 2004 <u>Approp.</u>
Debt Service	\$244	-	-\$244	-100%	-	-
Local Aid	3,620	\$3,672	52	1%	\$153	\$3,825
Entitlements	1,869	1,963	94	5%	9	1,973
State Operations	5,377	4,702	-675	-13%	40	4,742
Reversions	-25	-35	-10	40%		-35
Total Operating	\$11,085	\$10,302	-\$783	-7%	\$203	\$10,505
PAYGO	248	9	-239	-96%		9
Grand Total	\$11,333	\$10,311	-\$1,022	-9%	\$203	\$10,514